

MEMORANDUM

To: Deborah Markowitz, Secretary of State
Ann Cummings, Chair - Senate Finance
Ginny Lyons, Chair - Senate Natural Resources & Energy
Warren Kitzmiller, Chair - House Commerce
Tony Klein, Chair - House Natural Resources & Energy
Donald Milne, Clerk of the House
David Gibson, Secretary of the Senate
Emily Bergquist, Legislative Council
Steve Klein, Joint Fiscal Committee
Paul Donovan, Department of Libraries

From: James Volz, Chairman

Re: 2007 Energy Efficiency Utility Program Revenues and Expenditures

Date: February 10, 2009

In accordance with 30 V.S.A. § 209, the Public Service Board ("Board") is providing the Legislature with a final report on the Energy Efficiency Utility Fund ("Fund") for activity through December 31, 2007, and information summarizing the results of the activities paid for by the Fund in 2007.¹ This report is for the 2007 program year because the Fund has not yet been audited and the program savings have not yet been verified for 2008. A report on the Fund's revenues and expenditures for 2008 will be presented to the Legislature in 2010.²

¹ The statute reads as follows: "The board will annually provide the legislature with a report detailing the revenues collected and the expenditures made for energy efficiency programs under this section." 30 V.S.A. § 209(d)(3).

² There will always be a lag in reporting this information to the Legislature because the program savings must be verified by the Department of Public Service ("Department") and an independent audit of the Fund must be completed. For example, the Department provided a final report on its verification activities for the 2007 program year to the Board in July 2008 and the Board made its determination regarding the achieved savings in August 2008. The Board received the independent audit of the Fund for 2007 in September 2008.

I am pleased to provide the legislature with this summary of EEU energy efficiency services delivered during 2007. These energy efficiency services were provided primarily by the Energy Efficiency Utility ("EEU"), which operates under the name "Efficiency Vermont";³ however, the City of Burlington Electric Department ("BED") provided many of these services in its service territory.⁴

As these reports show, both the EEU and BED are providing real benefits to the state's electricity consumers by reducing individual customers' electrical energy consumption and by reducing statewide electrical demand.

While the statute does not specifically require the Board to report on the activities of the EEU, I have included a report that summarizes the EEU's key accomplishments in 2007.⁵ As stated in this report, the investments made by the EEU in 2007 are projected to save Vermont a net present value of \$36,400,000 over the 10-year average lifetime of the investments (\$76,100,000 in net present value benefits minus \$39,700,000⁶ in 2007 investments). Business customers received approximately 45 percent of the benefits of the EEU's services in 2007, while residential customers received approximately 55 percent of the benefits. The kilowatt-hours saved by the EEU cost Vermont electric consumers approximately 2.7 cents per kilowatt-hour, which is approximately 75 percent less than utilities would have paid for a comparable electric supply in 2007. For more information about the EEU's accomplishments, see the attached report written by Efficiency Vermont entitled "Efficiency Vermont: 2007 Executive Summary" (Tab 1).

Also attached are an excerpt from BED's 2007 Energy Efficiency Annual Report and a page entitled "Burlington Electric Total Resource Benefits" (both of which were prepared by BED) that summarize the results of BED's energy efficiency activities that were paid for by the Fund (Tab 2).⁷ BED's calculations show that the investments in EEU services made by BED in 2007 are projected to save Vermont a net present value of \$5,901,000 over the 13-year average lifetime of the investments (\$8,457,000 in net present

³ Vermont Energy Investment Corporation ("VEIC"), a non-profit corporation, serves as the EEU under a contract with the Board. The Board selected VEIC in 2000, and again in 2005, through competitive solicitations.

⁴ When the Board first created the EEU, it authorized BED to deliver many of the same services in its own service territory that the EEU provided throughout the rest of the state (for simplicity's sake, this report refers to these services as "EEU services").

⁵ The kilowatt-hour savings and benefit figures included in the EEU's 2007 Annual Report have been verified by the Department as part of its evaluation activities.

⁶ Includes costs paid for by participants and third-parties.

⁷ BED's Annual Report provides information on all of BED's energy efficiency activities, including the EEU services that are paid for by the Fund, and other activities that are paid for by BED customers through other funding mechanisms. The benefit and expenditure figures included in this report are limited to those attributable to BED's EEU services.

value benefits minus \$2,556,000⁸ in 2007 investments).⁹ Business customers will receive approximately 69 percent of these savings, while residential customers will receive approximately 31 percent of the savings. The kilowatt-hours saved by BED's EEU services cost BED's ratepayers approximately 1.1 cents per kilowatt-hour.

Batchelder Associates, PC, is the company under contract to the Board as the Fiscal Agent¹⁰ for the Fund. The firm of G.W. Osterman & Co, PC, was engaged to perform an independent audit of the Fund's revenues and expenditures for 2007. More detailed information is provided as an attachment (Tab 3). A brief summary of the Fund follows.

Total revenues collected by the Fund during calendar year 2007 were \$23,058,594 (including revenues collected via the energy efficiency charge on electric customers' bills, Efficiency Vermont's participation in the Forward Capacity Market, and interest income accrued).¹¹ Total expenditures from the Fund during calendar year 2007 were \$21,181,311. It is expected that revenues and expenditures will be closely matched over the life of the three-year contract for the EEU services. Expenses paid by the Fund included:

- energy efficiency services provided by the EEU;
- EEU services provided by BED;
- non-regulated fuel efficiency services provided by the EEU and BED using revenues from the Forward Capacity Market; and
- administrative costs such as the EEU Contract Administrator,¹² the EEU Fiscal Agent, and EEU monitoring and evaluation activities undertaken by the Department of Public Service.

The documents attached to this memorandum show (1) the Fund is being appropriately managed; and (2) the energy savings achieved by the EEU and BED in the past year benefitted all Vermonters, whether or not they participated in the EEU's or BED's programs.

⁸ Includes costs paid for by participants.

⁹ BED's kilowatt-hour savings and benefit figures have not yet been independently verified. The Department plans to verify BED's 2007 savings and benefits claims in the summer of 2009.

¹⁰ The Fiscal Agent provides the accounting services necessary to administer the Fund. These services include receiving funds collected by Vermont electric distribution companies, disbursing funds to pay approved invoices, managing any cash balances in the Fund, and reporting on Fund financial activities.

¹¹ The revenue and expenditure figures in this paragraph are presented on an accrual basis. The Fund's cash balance as of December 31, 2007, was \$7,457,401.

¹² The EEU Contract Administrator assists the Board with the administration of the Board's contract with the EEU, including making recommendations on whether the EEU has achieved its contractually specified performance goals. The current EEU Contract Administrator is Michael Wickenden, who was selected via a competitive bidding process in 2002 and again in 2008.

Please keep in mind that, with this report, we are not reporting on all electric energy efficiency initiatives that are being implemented throughout the state; instead, this report is limited to funds received through the energy efficiency charge as authorized under 30 V.S.A. § 209(d)(3) and the statewide efficiency services delivered by the EEU and BED. Some electric utilities are implementing additional electric energy efficiency initiatives as part of distributed utility planning or as a service to their customers.

Additional information about the various oversight activities related to the EEU that the Board and other entities conduct is available on the Board's website at: <http://www.state.vt.us/psb/EEU/OversightActivities/EEUOversightActivities.htm>
This information includes, among other items:

- various reports produced by the EEU and by BED;
- financial reports such as the independent audit of the EEU Fund and the independent audit of VEIC (the contractor serving as the EEU);
- the most recent statutorily-required audit of the EEU program's cost-effectiveness;
- reports produced by the EEU Contract Administrator; and
- links to savings verification and evaluation reports produced by the Vermont Department of Public Service.

As always, please don't hesitate to contact me at the Public Service Board if you have any questions.

Encl.

cc: Department of Public Service
Energy Efficiency Utility
City of Burlington Electric Department
EEU Contract Administrator